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IN THIS ISSUE:

Trade Bill Veto Likely 1

Unruly Dollar Disrupts G-7 Meeting 3

Japan Pushes For
Debt Crisis Initiative 4

Japanese Industry Turns Attention
To The Philippines 5

Shorter Workweek In Japan 7

Agreement Reached On
Defense Patent Protection 8

Japan's Trade Surplus
Continues To Shrink 9

Trade Bill Veto Likely

The consensus approach to trade legislation seemed to dissolve during the final days of the conference committee on HR 3, forcing analysts to do an about-face: instead of predicting a moderate bill that the president would sign, they began to forecast a veto. The turning point was an eleventh-hour decision by House Speaker Jim Wright (D, Tex.) and Senate Majority Leader Robert Byrd (D, W.Va.) to include in the bill a controversial provision requiring firms to give employees 60 days advance warning of a plant closing or mass layoffs.

By all appearances the Democrats caved in to labor pressures on this provision. The plant-closing measure has gained a significance disproportionate to the scope of its requirements since the unions have made it a symbolic

no indication of what they might do next. Some observers have suggested that if the president's veto is sustained, legislators should simply remove the offending plant-closing provision and resubmit the bill. But staff members say that procedural difficulties and the leadership's strategies make that option impossible. It is difficult to determine whether this message is intended as a negotiating ploy to persuade the president to sign the bill -- or whether Congress may consider that option if the White House does in fact veto HR 3. It appears, however, that if Congress sustains a presidential veto, that will be the end of trade legislation for the 100th Congress.

Eileen M. Doherty

Unruly Dollar Disrupts G-7 Meeting

At last economic officials seemed to have tamed the world currency markets. Rates had been stable for months and investors who wanted some assurance that they would not lose heavily overseas were beginning to venture into foreign investments again, buoying the markets still further. The finance ministers and the central bankers of the seven leading industrial nations gathered in Washington April 13 to congratulate themselves on their accomplishments and to affirm that they would stay the course they had set. The Group of Seven issued a communique that largely repeated its December statement stressing stable currencies (see JEI Report No. 1B, January 8, 1988).

At first the reaction of the markets was positive and the dollar looked stonger than it had in months. But there was a problem: the meeting coincided with the release of the February U.S. trade data. Although discounted by experts dubious about their reliability, in the last six months the numbers have been blamed for much of the international economic commotion, including the October stock market crash and previous bouts with the plummeting dollar.

As shown in the Table, the figures have generally improved on a month-to-month basis and most officials were obviously hoping for more of the same. Instead, their worst fears were realized. The data, released while some ministers were en route home, showed a deterioration in the trade position generally and in the bilateral balance with Japan. The reaction of the currency markets was swift and negative, sending the dollar plummeting against the yen and other currencies. Hastily arranged meetings among those officials who had not yet headed for the airport and quick market intervention managed to stem the decline, at least temporarily. World central banks and finance ministries reportedly spent $500 million on the April 14 effort, including at least $100 million from Japanese authorities.

The currency traders reacted primarily to the deterioration in the U.S. trade position between January and February, but such month-to-month comparisons actually mean little if the data are not seasonally adjusted. If the figures are compared on a year-to-year basis, the just-released February data look less alarming and are, in fact, the best relative performance in months. Even a year-to-year comparison is not without its problems, of course, as, for example, currency-induced price changes can mask real changes. Generally the year-to-year data show a trade deficit that is proving more stubborn than expected, without a clear pattern of decline.

U.S. Trade Balance

(in millions of dollars; exports f.a.s., imports c.i.f.)

August 1987-February 1988		August 1986-February 1987		Percent Change
August 1987	$15,683	August 1986	$13,336	17.6%
September 1987	14,076	September 1986	13,817	1.9
October 1987	17,631	October 1986	13,773	28.0
November 1987	13,218	November 1986	14,560	-9.2
December 1987	12,202	December 1986	11,906	2.5
January 1988	12,437	January 1987	11,937	4.2
February 1988	13,828	February 1987	14,365	-3.7

Source: Department of Commerce

By comparison, Japan's trade surplus is clearly contracting (see article in this issue.) The March data, released a few days before the U.S. figures came out, showed a surplus of $7.5 billion, down 7.4 percent from the year-earlier month. The larger-than-expected drop pulled the yen down a little before being overwhelmed by the bad news from Washington. The net effect of the G-7 meeting, the release of the two sets of trade figures and the intervention was practically a wash, with the dollar worth just a yen less on April 15 than the week before.

Some anxious Japanese officials reportedly saw in the week's events an echo of Black Monday as U.S. stock and currency markets seemed to be pulling each other down in a vicious cycle, threatening other stock exchanges in the process. They see vigorous currency intervention as the solution in such situations. In this view, the action taken in the aftermath of the G-7 meeting and statement was a shrewd way of making a point rather than an embarrassing necessity.

Douglas Ostrom

Japan Pushes For Debt Crisis Initiative

Capping a week of harmonious meetings with the finance ministers and central bankers of the Group of Seven industrial nations (see preceding article), Kiichi Miyazawa announced April 14 Tokyo's willingness to under-write a significant portion of a new initiative aimed at resolving the $1.2 trillion developing-country debt crisis. Although Japan's finance minister presented only a skeleton plan, the idea received support from officials of both the industrial and the developing countries.

The scheme rejects radical solutions involving large-scale debt forgiveness in favor of traditional International Monetary Fund policies that focus on local economic development. A long-term perspective is necessary, Mr. Miyazawa said, so that the development process does not cause undue social strains and to lighten the debt burden through a lengthened repayment period. The principles of economic restructuring and development must be tailored to individual

its secrecy. Although there is no direct connection between the accord signed April 12 and Japan's involvement in the Strategic Defense Initiative and the development of a next-generation fighter support plane (dubbed the FSX), many hope that the pact will open the door to defense-related technology exchanges that will better facilitate Japan's participation in these defense projects.

The United States pushed for the agreement to insure that Tokyo's policy on patent secrecy was adequate to protect the American technology that would be going into the FSX and other prospective joint defense projects. Japan enacted a patent secrecy law in 1956, but never effectively enforced it because of strong domestic opposition to allowing the government to hold industrial secrets. Thus, for the past 30 years, Tokyo could not guarantee confidentiality for U.S. defense-related patent applications because all files in the office were open to the public.

For its part, Washington prohibits holders of Pentagon classified patents from applying for patents in countries that cannot guarantee their secrecy. (The State Department says Washington currently has secrecy guarantees from approximately 15 countries, most of which are members of the Coordinating Committee on Multilateral Export Controls.) The result has been a considerable barrier to defense-related technology exchanges between the United States and Japan.

In order to satisfy both countries' statutory requirements, the new agreement stipulates that the Japan Defense Agency -- rather than the Patent Office of the Ministry of International Trade and Industry -- will act as the confidential repository of all U.S. patent applications with secrecy orders until the Pentagon declassifies them. In addition to enhancing national security, the accord is expected to benefit U.S. defense and high technology companies that until recently risked losing licensing fees and other monies from Japanese companies for commercial spin-offs of their products.

According to the U.S. Patent Office, last year it held about 5,000 high technology applications, 400 of which were classified. These covered products in industries such as electronics, aerospace and advanced composite materials, to name a few.

Barbara Wanner

Japan's Trade Surplus Continues To Shrink

Three years after the dollar topped out on foreign exchange markets, the monthly U.S. trade numbers finally seem to be moving in the right direction. But with the improvement coming by fits and starts, few Reagan administration officials or business economists are prepared to go out on a limb and state flatly that the corner has been turned. Trade watchers in Japan, whether in the government or outside, are not in the same bind. The country's huge trade surplus is not only headed down but is shrinking faster than many analysts expected, thanks to the one-two punch of a strong yen and booming domestic demand. The January-March 1988 period marked the fourth straight quarter that the gap between exports and imports in dollar terms narrowed on a year-to-year basis. Add to this the fact that the surplus contracted 19 percent in the

first quarter after dropping 15.6 percent in October-December 1987, 20.8 percent in the preceding three-month period and 5.5 percent in the April-June quarter and it is clear that the long-awaited turnaround in Japan's trade account has occurred.

Although the export-import gap is clearly shrinking, economists in Japan are starting to question how much longer the dollar-denominated surplus will contract by the big margins of recent months. Triggering this concern is new evidence that major Japanese exporters have lowered their break-even point to about Y130=$1.00. Overseas sales have expanded by double-digit margins for the last five months, including gains of 17 percent-plus in both February and March. Part of this growth reflects the yen's continuing rise against the dollar, but the volume of shipments, which had dipped in 1987's second and third quarters, has also increased, going up by 2.8 percent in the October-December period and 2.5 percent in this year's first three months.

While a contraction in the volume of overseas sales obviously makes life easier for Takeshita administration trade policymakers, additional gains in price-adjusted exports will not reverse the trend toward a significantly smaller Japanese trade surplus as long as imports continue to soar. But this caveat could become a problem. Purchases from abroad in dollar terms have jumped by more than one-third in each of the last two quarters, boosted in part by volume hikes of 13.6 percent in 1987's final quarter and 21.3 percent in the January-March period. Simply from an arithmetic standpoint, this performance will be hard to repeat in the coming quarters; any faltering in domestic demand will make it next to impossible.

Susan MacKnight

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

Japan's Total Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1983	$146,928	5.8%	$126,393	-4.2%	$20,534
1984	170,114	15.8	136,503	8.0	33,611
1985	175,638	3.2	129,539	-5.1	46,099
1986	209,151	19.1	126,408	-2.4	82,743
1987	229,221	9.6	149,515	18.3	79,706
1986: I	45,499	18.2	33,005	1.5	12,494
II	53,166	21.5	31,424	-2.1	21,742
III	54,768	24.7	30,153	-3.5	24,615
IV	55,718	12.6	31,826	-5.5	23,892
1987: I	51,464	13.1	31,977	-3.1	19,487
II	56,931	7.1	36,380	15.8	20,551
III	57,855	5.6	38,346	27.2	19,509
IV	62,972	13.0	42,812	34.5	20,159
1988: I(p)	60,197	17.0	44,418	38.9	15,779

Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1983	Y34,909	1.4%	Y30,014	-8.1%	Y4,895
1984	40,325	15.5	32,321	7.7	8,004
1985	41,956	4.0	31,085	-3.8	10,871
1986	35,290	-15.9	21,551	-30.7	13,739
1987	33,315	-5.6	21,737	0.9	11,578
1986: I	8,674	-12.4	6,334	-24.1	2,339
II	9,119	-17.3	5,399	-32.3	3,720
III	8,632	-18.5	4,758	-36.8	3,874
IV	8,865	-15.1	5,060	-28.9	3,806
1987: I	7,960	-8.2	4,959	-21.7	3,002
II	8,153	-10.6	5,207	-3.6	2,946
III	8,507	-1.5	5,644	18.6	2,864
IV	8,694	-1.9	5,928	17.2	2,767
1988: I(p)	7,703	-3.2	5,677	14.5	2,026

Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1983	$42,829	17.9%	$24,648	1.9%	$18,181
1984	59,937	39.9	26,862	9.0	33,075
1985	65,278	8.9	25,793	-4.0	39,485
1986	80,456	23.3	29,054	12.6	51,401
1987	83,580	3.9	31,491	8.4	52,090
1986: I	16,696	25.1	6,278	-7.3	10,418
II	20,921	24.3	8,305	25.1	12,616
III	21,280	28.1	7,525	23.1	13,755
IV	21,559	16.7	6,946	10.8	14,613
1987: I	18,001	7.8	6,966	11.3	11,015
II	21,181	1.2	7,592	-8.6	13,589
III	21,628	1.6	8,252	9.7	13,376
IV	22,770	5.6	8,660	24.7	14,110
1988: I(p)	22,665	25.9	10,056	43.9	9,776

Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1983	Y10,179	12.9%	Y5,855	-2.3%	Y4,323
1984	14,221	39.7	6,364	8.7	7,858
1985	15,583	9.6	6,213	-2.4	9,369
1986	13,564	-13.0	4,918	-20.9	8,646
1987	12,148	-10.4	4,582	-6.8	7,566
1986: I	3,191	-6.9	1,203	-30.7	1,988
II	3,589	-15.4	1,421	-15.1	2,168
III	3,355	-16.3	1,190	-19.3	2,165
IV	3,429	-12.1	1,104	-16.9	2,325
1987: I	2,786	-12.7	1,083	-9.9	1,703
II	3,034	-15.5	1,086	-23.6	1,948
III	3,180	-5.2	1,215	2.1	1,965
IV	3,148	-8.2	1,198	8.5	1,950
1988: I(p)	2,537	-8.9	1,286	18.7	1,251